

KEYNOTE INTERVIEW

Once in a lifetime



EY's Kirk Shimizuishi says a unique combination of factors is driving investment opportunity in Japan and causing its private equity market to flourish

Q How would you describe the current fundraising environment in Japan, and what is driving investor appetite for the market?

There is considerable excitement around the Japanese private equity market right now, both domestically and globally, and a sense of a once-in-a-lifetime opportunity due to a unique confluence of tailwinds.

First, the yen has depreciated against the dollar, increasing the attractiveness of Japanese target companies for dollar-based PE investors. In addition, there are the corporate governance reforms, implemented by the Japanese government and the Tokyo Stock Exchange, which have helped to make Japan a more transparent and investor-friendly market.

This has spurred activist investors

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to push for entirely rationale reforms, including the sale of non-core businesses, and be successful with these campaigns. Consequently, private equity firms are experiencing a surge in dealflow, with an increasing volume of larger assets hitting the market.

Finally, the headwinds facing the Chinese market have led many investors to re-evaluate their Asia allocations. As a result, Japan has become the key target market for global investors within the region given the extensive breadth and depth of investment opportunities it offers.

With these three factors converging, we are experiencing a perfect storm, which is resulting in Japan's

fundraising environment becoming extremely robust. More than \$7 billion was raised in 2024 and many funds have exceeded their hard-caps. Domestic and international LPs recognise that Japan is the place to be within the Asia market.

Q Can you explain a bit more about how the rise of shareholder activism is driving private equity dealflow?

The number of activist funds holding stakes in public Japanese companies has grown ninefold, from just eight in 2014 to 73 in 2024. Meanwhile, shareholder proposals by activists have increased by 16 times during the same period.

If you look at the team composition of many of the major activist funds, they are increasingly becoming staffed by professionals with backgrounds in

private equity, consultancy and investment banking. They understand what drives corporate value; as a result, their campaigns are predicated on a playbook that resonates with PE firms. While those activist investors are not looking to buy the companies themselves, they can prompt corporates to consider take-privates and non-core divestitures, which directly contributes to PE dealflow.

As a result, we have seen divestitures from major conglomerates in the retail, electronic and industrial sectors, for example. During the past few years, many GPs have amassed significant amounts of dry powder following favorable fundraising dynamics and are looking to capitalize on these opportunities created by activists. According to PitchBook, by the end of 2024, private equity firms globally had \$1.4 trillion in dry powder available for investment.

Overall, there is a real momentum building as corporates increasingly realise that this is not something they can ignore. By embracing change and innovation, they can unlock new opportunities, leading to a significant number of sizable take-private and corporate carve-out opportunities.

Given the numerous success stories, more domestic and international activist funds are likely to view Japan as a key market. Today, Japan resembles the US in the 1980s, with large conglomerates composed of unrelated businesses. Activists see an opportunity to break these conglomerates apart, while PE firms aim to buy and optimise those assets.

Q How are PE firms in Japan looking to add value?

The Japanese PE market is still young relative to the US and Europe and the playbook continues to evolve. Initially focused on acquiring distressed assets at low valuations, the market shifted towards small to mid-cap performing businesses, with business succession opportunities becoming more prevalent.

Since the late 2010s, focus has moved towards corporate carve-outs,

leading more PE firms to seek sizeable, global businesses headquartered in Japan that potentially have been undercapitalised and undermanaged within their corporate parent.

These are complex transactions, particularly in the carve-out space where a business may be deeply embedded in the parent. It is no longer possible to simply drive returns through financial engineering, and so PE firms are having to go deep into the operations of their portfolio companies to create value.

Technology is one key area where we are seeing this play out. Despite Japan's reputation as a high-tech country, many of the businesses that PE firms are acquiring have IT infrastructure that needs improvement. The infrastructure may be bloated and need streamlining, or there may be gaps and disintegrated tech platforms. The underlying technology is often not set up in such a way that it can support the value creation plan that PE firms ultimately want to implement.

Similarly, finance operations tend to be a functional area where there are significant opportunities for improvement around processes and use of data. In value creation exercises, it is critical to have visibility of the numbers, otherwise it is impossible to determine whether initiatives are having the desired effect. If you don't know how much cash you have, you won't know how much can be invested back into the business to fund value creation plans.

Finance systems are often highly disintegrated at the point of acquisition, however, with numbers being reported from and into multiple systems. We are supporting our clients to transform this area, ensuring the right technology infrastructure is in place to create seamless and effective finance operations to drive value.

Q How are PE firms using talent to drive value?

PE firms look to optimise value through talent acquisition by bringing

in experts from various sectors and functional backgrounds to provide innovative thinking. In Japan, where companies often adhere to traditional methods, PE firms introduce fresh perspectives and specialised knowledge to drive transformation and growth.

These experts identify inefficiencies, implement best practices and foster a culture of continuous improvement, essential for long-term success. By leveraging their networks, PE firms can attract top-tier talent that might otherwise be inaccessible to the acquired companies, strengthening their competitive edge for future market success.

Q What are the exit options in Japan today?

According to Dealogic and AVCJ, in 2024 Japan saw 89 PE-backed exits, generating a total of \$13 billion, up from \$10 billion across 81 exits in 2023. With equity markets opening up, we have occasionally seen sponsor-backed IPOs. Most exits tend to go to strategic buyers or financial investors, but given how much dry powder has been raised by private equity firms over the past few years, it is sponsor-to-sponsor sales that are dominating.

The number of funds operating in Japan with fund sizes of \$500 million or more has increased from 15 in 2012 to 26 in 2023. The number of sizeable funds has, therefore, almost doubled and these GPs are facing real pressure to deploy capital, which is driving the trend towards secondary buyouts.

As the market continues to recover, we will start seeing more IPOs. In the current climate, trade sales and secondary buyouts offer a more immediate and accessible path, providing valuable opportunities for growth and success even if they may not have the same level of visibility as IPOs. ■

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